

# 2003 Safety-Net Cost Recovery Adjustment Clause

## Rebuttal Testimony

SN-03-E-BPA-17 SN CRAC DESIGN

May 2003



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REBUTTAL TESTIMONY OF  
TIM D. MCCOY, BYRNE E. LOVELL, RANDY B. RUSSELL, CAROL A. MILLER,  
JAMES C. SAPP, AND MICHAEL R. NORMANDEAU

Witnesses for Bonneville Power Administration

**SUBJECT: SN CRAC Design**

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5  
6 **SUBJECT: SN CRAC Design**

7 **Section 1. Introduction and Purpose of Testimony**

8 *Q. What is the purpose of your testimony?*

9 A. The purpose of this testimony is to respond to and rebut issues raised by the testimony  
10 regarding the SN CRAC rate design.

11 *Q. How is your testimony organized?*

12 A. It is organized into four sections including this introduction. Section 2 addresses the  
13 design of the SN CRAC trigger; Section 3 addresses issues related to the SN CRAC  
14 design; Section 4 addresses the IOU settlement issues.

15 **Section 2. Design of SN CRAC Trigger**

16 *Q. The Columbia River Inter-Tribal Fish Commission and Yakama Nation (CRITFC) and*  
17 *Save Our Wild Salmon and Northwest Energy Coalition (SOS) argue that BPA should*  
18 *adopt new trigger criteria for the SN CRAC that is forward looking. They contend that*  
19 *the current design does not trigger far enough in advance to allow the rate adjustment to*  
20 *deal with events that will occur in the next fiscal year. Sheets, et al., SN-03-E-CR/YA-01,*  
21 *at 51; Weiss SN-03-E-SA-01, at 3. Please respond.*

22 A. The design of the trigger mechanism was decided in the WP-02 (June 2001) Record of  
23 Decision. Matters decided in the WP-02 proceeding were expressly excluded from the  
24 scope of this proceeding in the Federal Register Notice. SOS raised this issue in BPA's  
25 Supplemental Rate proceeding and the Administrator considered and rejected the  
26 proposal by SOS to have the SN CRAC trigger for events beyond the current fiscal year.

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1 CRITFC and SOS do not agree with the Administrators decision and are attempting to  
2 relitigate the matter again in this proceeding.

3 Even though this matter is not within the scope of this proceeding, BPA does not  
4 agree with the conclusions of CRITFC and SOS that a new trigger mechanism is needed.  
5 The trigger mechanism as stated in the 2002 General Rate Schedule Provisions (GRSPs)  
6 allows for the forward look for the current year only to assess if there is 50 percent or  
7 lower probability of making the treasury payment for that year. CRITFC and SOS argue  
8 that BPA should be able to look beyond the current year to address possible events that  
9 would negatively impact the ability to recover costs. Allowing BPA to trigger the  
10 SN CRAC beyond the current fiscal year for events that have not yet occurred and could  
11 be mitigated through other actions would place unfair pressure on ratepayers to recover.  
12 This does not preclude BPA from setting rates once the SN CRAC has triggered to solve  
13 for events taking place outside of the current year.

14 **Section 3. SN CRAC Design Features**

15 *Q. CRITFC and SOS argue that BPA should eliminate the cap for the SN CRAC because*  
16 *they contend the cap lowers TPP. They believe the cap delivers a mixed message*  
17 *because on one hand BPA asserts its internal operating costs are under control and as a*  
18 *consequence there is no need to model the risk surrounding internal costs. Yet at the*  
19 *same time BPA imposed a cap on the SN CRAC dollars collected yearly that CRITFC*  
20 *and SOS believe is there because of the risk that internal costs may increase. Sheets,*  
21 *et al., SN-03-E-CR/YA-01, at 51; Weiss SN-03-E-SA-01, at 14-15. Please reconcile*  
22 *BPA's position on these points.*

23 *A. The entire purpose of the SN CRAC is to raise the TPP beyond what it would be without*  
24 *any rate adjustment and to ensure BPA's financial integrity through the end of the current*  
25 *rate period. The cap placed upon the annual amounts that can be collected does not lower*  
26 *TPP but limits the amount by which it can be increased. This cap, along with the other*

1 SN CRAC parameters, was set to meet the TPP, TRP, and net revenue standards set at the  
2 time of the Initial Proposal, not to impose a limit upon internal operating costs. The  
3 value of the cap was set to provide "...a reasonable balance between limiting the rates  
4 customers might have to pay and providing protection for BPA's finances." McCoy,  
5 *et al.*, SN-03-E-BPA-10, at 5. With the strengthened cost management BPA has pledged,  
6 BPA does not believe that there is a significant risk that internal operating costs will  
7 increase; the cap is proposed to demonstrate to customers and others BPA's commitment  
8 to cost control.

9 *Q. The Coalition Customer group claims that BPA's TPP model is very sensitive to*  
10 *extremely poor water conditions. They contend that under most circumstances BPA does*  
11 *moderately well under normal water conditions and therefore it is not prudent or*  
12 *reasonable to require customers to make advanced payments over the three remaining*  
13 *years of the rate period. Faddis, et al., SN-0-E-CC-01, at 24. How do you respond?*

14 *A.* BPA believes that it properly models the risks and that the variable design takes into  
15 account improvements in BPA's financial circumstances. TPP is intended to reflect the  
16 full range of operating risks faced by BPA over the remainder of the rate period and, as  
17 such, needs to address the full range of hydro impacts represented in the 1929-1978 water  
18 record. Although these years are probability-adjusted for the remainder of FY 2003 (to  
19 eliminate historical water years that differed considerably from the current year in terms  
20 of the first half-year) all of the years in the record are given equal likelihood of occurring  
21 in the FY 2004-2006 period. *See* SN-03-E-BPA, at 6-5 through 6-6 for details. Setting  
22 the SN CRAC to deal with "most" circumstances, while eliminating extremes from  
23 consideration, would artificially decrease the range of net revenue risk and possibly  
24 understate the size of the needed rate adjustment. RiskMod and ToolKit need to provide  
25 an adequate representation of the impacts of extreme as well as average hydro, and the  
26 models are calibrated to model these effects based upon observed relationships between

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1 water conditions and net revenues.

2 *Q. The Coalition Customer group asserts that BPA's modeling shows there is significant*  
3 *exposure to the maximum CRACs in the fourth and fifth years of the rate period under the*  
4 *SN CRAC proposal. As a result the Coalition Customers contend that BPA's proposal*  
5 *does not protect customers against "massive rate increases" in the final years of the rate*  
6 *period. This result also assumes no load loss or failure on the part of customers to pay*  
7 *their bills. Faddis, et al., SN-0-E-CC-01, at 25. Joint Customers also argue against a*  
8 *3-year SN CRAC also. Bliven, et al., SN-03-E-JC-01, at 21. How do you respond?*

9 *A. The Coalition Customers and Joint Customers are arguing against a 3-year SN CRAC.*  
10 *BPA has shown in its Initial Proposal that when a 3-year SN CRAC is compared to a*  
11 *one-year SN CRAC that achieves an equivalent security of making Treasury payments on*  
12 *time, the 3-year solution has a lower expected value rate than the 1-year solution. The*  
13 *Coalition Customers say that large rate increases are possible under BPA's proposal;*  
14 *what they do not say is that a 1-year SN CRAC would have to allow for higher rate*  
15 *increases. A 1-year rate would need to have a higher expected value than the expected*  
16 *value of a 3-year rate; a one-year rate would also need to have a higher maximum*  
17 *possible rate than the 3-year rate. Therefore, BPA believes the 3-year approach protects*  
18 *both customers and BPA's financial stability better.*

19 *Q. BPA's Initial Proposal indicated that it was considering designing the SN CRAC in a*  
20 *manner that precluded it from recovering internal operating costs above levels assumed*  
21 *in the rate case. SOS does not support such a design feature because it would result in a*  
22 *lower TPP level (less than the 50 percent criteria) and increases risk of missing a*  
23 *Treasury payment. If some sort of borrowing ability does not accompany this*  
24 *proposal SOS cannot support this proposal. Weiss, SN-03-ESA-01, at 15. How do you*  
25 *respond?*

26 *A. It is important to sort out various risks and ensure that each risk and its mitigation are*

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1 considered jointly. For example, the two main mitigations of hydro supply risk and  
2 market volatility are BPA's financial reserves and the adjustable CRACs (FB CRAC and  
3 SN CRAC). BPA's TPP calculations model both of those risks, and both of those  
4 mitigations. BPA is proposing to use strong cost management as the mitigation for the  
5 risk of increases in internal operating costs. Both that risk and its mitigation are excluded  
6 from the modeling. This is reasonable: BPA has never intended that its TPP modeling  
7 would explicitly include every risk—it should include those risks whose mitigation is also  
8 modeled with the same analytical apparatus, and BPA should ensure that the risks that are  
9 not modeled in TPP have mitigations also not modeled in TPP. BPA believes that the  
10 cap on internal operating costs that can be recovered through the SN CRAC is  
11 reasonable.

12 *Q. SOS generally sees merit in the contingent rate design outlined in BPA's Initial Proposal.*  
13 *They propose a modification to the design that would require BPA to look forward and*  
14 *account for both positive and negative events that impact BPA's revenues or costs.*  
15 *Under BPA's Initial Proposal the contingent design would look forward and only take*  
16 *account of positive impacts on revenues and costs. Weiss, SN-03-E-SA-01, at 16, 24,*  
17 *and 25. Do you agree?*

18 *A. BPA disagrees that the contingent approach should consider both positive and negative*  
19 *impacts of BPA's revenues and costs. The variable nature of the design proposed in*  
20 *BPA's Initial Proposal will respond to both positive and negative events that impact*  
21 *revenues and costs, once they have occurred. This is an important risk mitigation feature.*  
22 *The contingent option, on the other hand, was developed to allow additional time*  
23 *(between the completion of the SN CRAC Final Study and August 2003) for all*  
24 *concerned parties in the region to create solutions for BPA's financial crisis. This is not*  
25 *intended to be a risk mitigation feature – it is intended to facilitate the incorporation of*  
26 *solutions that bolster BPA's finances with lower impact on the region.*

1 Q. *SOS is concerned that a rate design that “guarantees” that costs from BPA’s internal*  
2 *operating costs are uncollectable through the SN CRAC will be taken out of other*  
3 *budgets and jeopardizes fish and wildlife funding. SN-03-E-SA-01, at 24 and 31. How*  
4 *do you respond?*

5 A. In August 2003, as part of the Contingent SN CRAC Design, BPA will be reviewing its  
6 costs in a number of categories to finalize the parameters on the SN CRAC. At this time,  
7 BPA will work with the Power Planning Council to determine if there are any possible  
8 cost reductions in the area of Fish and Wildlife. Prior to this, at the time of the Final  
9 Studies, BPA will be placing a cap on the level of internal operating costs that can be  
10 collected through the SN CRAC, which will not be changed in the contingent  
11 recalculation of the SN CRAC parameters. These cost categories will be clearly  
12 differentiated and tracked separately during the remainder of the rate period. Any  
13 reductions in the Fish and Wildlife budget will occur only with the full approval of the  
14 Council, not as the result of increases in internal operating costs beyond those collectable  
15 through the SN CRAC.

16 Q. *As a means of dealing with price volatility, SOS proposes offering the DSIs*  
17 *approximately 600 aMW of power under a variable rate design to ensure “swing load”*  
18 *on BPA’s system. Under this proposal, the DSIs would get power at a discounted*  
19 *market-indexed price for this interruptible power. SN-03-E-SA-01, at 25. Do you agree*  
20 *with the SOS proposal?*

21 A. No. While BPA acknowledges that past power sales contracts with the DSIs had risk  
22 mitigation features such as interruptability and sales of non-firm power, BPA does not  
23 believe that renegotiating its current contracts with the DSIs is within the scope of the  
24 SN-03 7(i) proceeding. The current schedule for the expedited 40-day SN-03 7(i)  
25 proceeding has no time allotted for such a renegotiation. In addition, BPA knows of no  
26 analysis that would indicate that the renegotiated DSI power sales contracts proposed by

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1 SA would result in either lower BPA costs or higher BPA revenues. BPA believes the  
2 rate-lowering value of the SA proposal is highly speculative and has virtually no  
3 likelihood of being accomplished in the time allowed.

4 *Q. SOS contends that adding \$111.5 million/year in additional costs for fish and wildlife and*  
5 *low-income conservation expenses will only increase rates by 1.5 mills/kwh.*  
6 *SN-03-E-SA-01, at 29. How do you respond?*

7 *A. BPA can replicate SOS's estimate of a 1.5 mills/kwh rate effect from an additional*  
8 *\$111.5 million/year in fish and wildlife and low-income conservation expenses only if it*  
9 *assumes the added costs are spread over all load served, including Slice load, and also*  
10 *spread over all of the monetary benefits of the residential and small farm customers of the*  
11 *investor owned utilities (IOUs). On a percentage basis, the 1.5 mills/kwh increase*  
12 *proposed by SOS translates into an approximate increase of 7 percent over May 2000*  
13 *base rates and will reduce the IOU customers' monetary benefits by about 8 percent.*

14 *Q. The Western Public Agencies Group (WPAG) contends that a number of structural*  
15 *changes to the SN CRAC are necessary to address the "lessons of the past." They make*  
16 *five proposals: (1) the SN CRAC should operate in a contingent fashion; (2) BPA should*  
17 *incorporate spending controls that limits any SN CRAC increase; (3) the SN CRAC*  
18 *should be structured in a fashion that takes into account events favorable to BPA's*  
19 *financial situation; (4) BPA should incorporate a public participation element that could*  
20 *allow BPA's customers to comment on the assumptions of costs and expenses factored*  
21 *into the SN CRAC calculation; and (5) BPA should update water and market price*  
22 *forecasts for the Final Proposal. Saleba and Piliaris, SN-03-E-WA-01, at 14-15. Can*  
23 *you address each of these items?*

24 *A. Yes.*

25 *Q. First, does BPA's rate design contemplate a contingent feature?*

26 *A. BPA's Initial Proposal was for a variable SN CRAC without a contingent feature,*

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1           however the proposal did raise the concept of a contingent design and solicited customer  
2           input into how such a design might work. Based on its own analyses and responses by  
3           Parties to BPA's Initial Proposal, BPA plans to include a contingent feature in the Final  
4           Study.

5   *Q.   Second, WPAG believes that the proposal does not place any limits on BPA's spending.*  
6           *How do you respond?*

7   A.   We agree. BPA's Initial Proposal does not place any limits on BPA's spending, however  
8           the proposal did raise the concept of capping certain cost categories for purposes of  
9           establishing the level of the SN CRAC in a variable design. Please refer to Keep, *et al.*,  
10          SN-03-E-BPA-11. BPA is proposing placing caps on the amount of internal operating  
11          costs that can be collected through the SN CRAC.

12   *Q.   Third, WPAG contends that the proposal does not contain any method of consideration of*  
13          *future events that may improve BPA's financial situation. Do you agree with their*  
14          *assessment?*

15   A.   No. The variable nature of BPA's Initial Proposal allows it to recognize events that  
16           improve BPA's financial situation once they have occurred. The Initial Proposal did not  
17           contain any method of consideration of future events that could improve BPA's financial  
18           situation prior to the events actually occurring, however the testimony did raise the  
19           concept of such a forward-looking consideration, which is labeled a contingent design.  
20          BPA will include such a contingent feature in the Final Proposal

21   *Q.   Fourth, WPAG contends, and the Generating Public Utilities (GPU) concur, that the*  
22          *SN CRAC provides no method for customer participation in the SN CRAC rate decision.*  
23          *They argue that the only procedural step required by BPA to institute such rate increases*  
24          *is sending a letter to its customers. Saleba and Piliaris, SN-03-E-WA-01, at 15;*  
25          *SN-03-E-GP-01, at 6 and 10. Can you address these points?*

26   A.   WPAG and GPU are incorrect that BPA's SN CRAC Initial Proposal does not contain an

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1 opportunity for a public process. *See McCoy, et al.* SN-03-E-BPA-10, at 6. In August of  
2 each year BPA will hold a workshop where it will explain the assumptions behind the  
3 forecast of ANR and its calculation of the SN CRAC. Customers will have an  
4 opportunity through this workshop to test and question both the assumptions and data  
5 BPA uses in the calculation of the SN CRAC.

6 *Q. Fifth, WPAG argues that BPA should update water and market price forecasts for the*  
7 *Final Studies and the Maximum Planned Recovery Amount for each of the three*  
8 *remaining years should be updated in the Final Studies to achieve the same level of TPP*  
9 *and TRP as the Initial Proposal, but the FY 2004 level should be reduced to reflect recent*  
10 *improvements in BPA's situation, such as the latest forecasts of water and market prices.*  
11 *Do you agree?*

12 *A.* BPA agrees with some parts of that suggestion and disagrees with others. BPA agrees  
13 that water and market price forecasts should be updated for the Final Study; in fact, this is  
14 BPA's standard practice. This would lead automatically to adjustments in the SN CRAC  
15 design. BPA intends through these adjustments to produce an SN CRAC design that just  
16 meets its three criteria – it is not intending to increase or decrease the TPP, TRP, or zero  
17 net revenue standards. BPA also agrees that recent changes in BPA's situation, such as  
18 improvements in (or worsening of) the financial implications of water and market prices  
19 that have occurred at the time of the preparation of the Final Study should be  
20 incorporated. Further, BPA plans to include changes in hydro and market price impacts  
21 from 2003 in the contingent recalculation of the SN CRAC around August 2003. These  
22 changes would be reflected in the calculation of the variable SN CRAC revenue amount  
23 anyway, but incorporating them in the contingent recalculation of the SN CRAC  
24 parameters will spread the impact over three years instead of concentrating them in one  
25 year. BPA does not agree that the appropriate way to incorporate such changes would  
26 necessarily be to change the maximum planned recovery amounts alone; changing the

1 thresholds is generally a more effective way to change the expected value of SN CRAC  
2 revenue collection.

3 *Q. WPAG contends that the proposal does not contain any mechanism to keep BPA from*  
4 *spending cost reductions or revenue increases rather than passing them on to customers*  
5 *in rate reductions. Saleba and Piliaris, SN-03-E-WA-01, at 15-16. Can you address this*  
6 *point?*

7 *A. There is no mechanism in the rate design for cost reductions or revenue increases to*  
8 *guarantee a reduction in the SN CRAC adjustment. However, BPA's commitment to*  
9 *cost control along with the variable design will allow for cost reductions and revenue*  
10 *increases to be passed on to customers. See Keep, et al., SN-03-E-BPA-11. In the Initial*  
11 *Proposal, on an expected value basis, the SN CRAC will average approximately*  
12 *29.6 percent over the remaining 3 years of the rate period. The variable design would*  
13 *have that percentage automatically reduce all the way to zero if sufficient cost reductions*  
14 *or revenue increases occur.*

15 *Q. WPAG asserts that BPA's proposal contains no mechanism that would provide a direct*  
16 *and immediate benefit to customers in the event that BPA's finances recover, and*  
17 *recommends a provision in the proposal to ensure customers who are subject to the SN*  
18 *CRAC obtain a commensurate benefit if BPA's finances improve. Specifically, WPAG*  
19 *proposes that the SN CRAC include a rebate mechanism that will automatically trigger in*  
20 *any year in which BPA's forecast ANR exceeds by \$15 million the applicable SN CRAC*  
21 *threshold for that fiscal year. The rebate would equal one-half of the difference between*  
22 *the ANR and the SN CRAC threshold for that fiscal year. Saleba and Piliaris,*  
23 *SN-03-E-WA-01, at 26-28. GPU contends that a 50 percent refund of any amounts by*  
24 *which ANR exceeds the SN CRAC Threshold would share the benefits of excess revenues*  
25 *between regional ratepayers and improvements to BPA's financial condition.*  
26 *Lovely, et al., SN-03-E-GP-01, at 7-8. Can you address this point?*

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1 A. BPA does not believe the proposal for the rebate is either needed or prudent. It is not  
2 needed because BPA's proposal does, in fact, provide customers a direct and immediate  
3 benefit if its finances improve. For example, if BPA's finances improve and ANR  
4 exceeds the threshold for the 2005 SN CRAC, customers would benefit from that by  
5 seeing (other things equal) a lower SN CRAC rate in 2006. In addition, BPA instituted  
6 the Dividend Distribution Clause (DDC) as a rebate mechanism in the WP-02 rate  
7 proceeding. The DDC mechanism remains in place and ensures the distribution to  
8 customers if BPA's finances improve sufficiently. WPAG agreed to the DDC as part of  
9 the Settlement Agreement in the WP-02 Supplemental rate case. BPA does not see any  
10 need to alter the substance of the prior agreement with WPAG. It is not prudent because  
11 the type of rebate mechanism recommended by WPAG would automatically lower the  
12 TPP for the next fiscal year and the remainder of the rate period. BPA believes that it has  
13 already lowered the TPP as far as is fiscally prudent under the current circumstances.

14 Q. *Springfield Utility Board (SUB) proposes that BPA establish an ending reserve target of*  
15 *\$350 million for the end of FY 2006, and refund any reserves above this amount to*  
16 *customers who paid the SN CRAC. Nelson, SN-03-E-SP-01, at 16-17. Do you agree?*

17 A. No, BPA does not agree with this proposal. Reserve levels above \$350 million at the end  
18 of FY 2006 will tend to lower rates in the following rate period, so customers will benefit  
19 from the higher reserve levels. The \$350 million level does not appear to be based upon  
20 any analysis of BPA's TPP and is an arbitrary figure selected by SUB. SUB chose this  
21 level because it is close to the EV \$347.8 million figure calculated by Toolkit for the  
22 Initial Proposal. SUB has provided no analysis to support this amount as an adequate  
23 reserve level for BPA as it enters the post-2006 rate period.

24 Q. *SUB argues that if this SN CRAC refund were to occur, it should be distributed before*  
25 *any DDC takes place. Do you agree?*

26 A. As stated previously, BPA does not agree with SUB's rebate proposal. Also, BPA is not

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1 intending to modify the DDC as part of the SN CRAC. Should BPA's AANR exceed the  
2 DDC thresholds for fiscal years 2003 through 2005, the DDC rebate will be given. In  
3 any event, the DDC is based on AANR through FY 2005 only, with any rebate for  
4 FY 2006 to be distributed on bills for deliveries beginning April 1, through  
5 September 30, 2006. There is no DDC based on end of FY 2006 AANR.

6 *Q. WPAG proposes that BPA could only increase rates to cover expenses above the cost*  
7 *levels BPA proposed by instituting a new 7(i) proceeding before March in order to create*  
8 *a new SN CRAC that could recover such costs in the next fiscal year. Saleba and*  
9 *Piliaris, SN-03-E-WA-01, at 18-19. GPU also argues that if spending levels increase*  
10 *above planned levels, BPA may only include them in an SN CRAC by conducting a new*  
11 *7(i) rate proceeding, where an explanation of cost overruns would need to be explained*  
12 *and justified. They believe that BPA must demonstrate it has exhausted all other*  
13 *alternatives. Lovely, et al., SN-03-E-GP-01, at 8-9.*

14 *A. BPA will establish expense caps for internal operating costs that prevent BPA from*  
15 *recovering any costs in excess of the caps through the proposed SN CRAC. To the extent*  
16 *BPA seeks to recover amounts in excess of these caps through rates, it will be required to*  
17 *institute a new 7(i) proceeding. BPA does not agree with the concept of specifying the*  
18 *timing of a new SN CRAC 7(i). Unforeseen events could arise after March 1, which*  
19 *could necessitate triggering a new 7(i) process.*

20 *Q. GPU endorses a more structured setting to examine the need for an SN CRAC, and*  
21 *contends that issues such as expected water conditions and market prices, reductions in*  
22 *operating and generating partner costs, cost deferrals and restructurings, and debt*  
23 *management activities, need to be covered. How do you respond to the proposal?*  
24 *Lovely, et al., SN-03-E-GP-01, at 9-10.*

25 *A. BPA's Final Proposal will include a contingent mechanism that will account for a defined*  
26 *set of future events in August 2003. In addition, BPA's proposal contains a public*

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1 process prior to establishing the SN CRAC adjustment for the coming year. BPA  
2 disagrees with the concept of an annual forward looking public process, as part of the SN  
3 CRAC process, but is open to consideration of public review of costs and financial status  
4 on a more frequent basis outside the formal rates process.

5 *Q. GPU argues that if BPA implements their list of proposed action, BPA will have the*  
6 *financial resources to pay the Treasury in FY 2003 and FY 2004 and will not need to*  
7 *implement an SN CRAC for FY 2004. They contend that if an SN CRAC is needed for*  
8 *FY 2004, it should do so only pursuant to the GPU's proposed contingent SN CRAC with*  
9 *improvements to FY 2003 Accumulated Net Revenues (ANR) used to lower the Maximum*  
10 *Planned Recovery Amount for FY 2004 only rather than spreading improvements*  
11 *through the rest of the rate period. Lovely, et al., SN-03-E-GP-01, at 4. Please respond.*

12 *A. BPA disagrees. BPA believes that many of the actions GPU proposes would be*  
13 *imprudent: BPA will not use cash tools to lower the SN CRAC rate; BPA will not*  
14 *assume that agreements with Treasury not currently in place allow for lowering the SN*  
15 *CRAC rate; and BPA does not agree that changing the Conservation amortization period*  
16 *is prudent. See Keep, et al., SN-03-E-BPA-11 and Lefler, et al., SN-03-E-BPA-13. If a*  
17 *contingent design is adopted, then in August of 2003 all beneficial events will be put into*  
18 *the process to establish new thresholds and caps. This does not preclude a design that has*  
19 *a specific tilt (lower expected rate increases in FY 2004 for example) from being*  
20 *adopted, but a specific tilted rate would not be the recommendation of BPA.*

21 *Q. GPU believes that BPA spending should be capped at the levels for each subtotal in*  
22 *BPA's net income statement and that savings in one cost category or additional revenue*  
23 *would not be allowed to offset excess spending in any cost category. Lovely, et al.,*  
24 *SN-03-E-GP-01, at 8-9. Please respond.*

25 *A. BPA does not agree with individual narrowly defined cost caps on expense categories.*  
26 *Such an agreement would preclude full cost recovery even if shifting costs from one*

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1 category to another to improve efficiency resulted in reduced overall costs. BPA will,  
2 however, in the final proposal adopt overall spending level caps for its internal expenses  
3 that are not recoverable through this SN CRAC proposal. *See Keep, et al.,*  
4 *SN-03-E-BPA-11.*

5 *Q. GPU contends that for the SN-CRAC, formal quarterly reviews of BPA's actual and*  
6 *forecasted revenues, and overall financial condition should become part of the SN CRAC*  
7 *process. GPU also contends that this would help restore some of the trust between BPA*  
8 *and its customers that has been eroded by recent events. Lovely, et al.,*  
9 *SN-03-E-GP-01, at 10. How do you respond?*

10 *A. In the Initial Proposal, BPA proposed to incorporate the setting of the annual SN CRAC*  
11 *into the FB CRAC workshop process. At this time, BPA does not intend to develop*  
12 *formal quarterly SN CRAC process to review the agency's overall financial condition.*  
13 *Instead, BPA will recommend that the SN CRAC process be developed similar to the*  
14 *LB CRAC process where customers have the ability to respond to BPA's forecasted*  
15 *SN CRAC adjustment for the next fiscal year before the final rate is set. BPA believes*  
16 *that the process contemplated will provide the transparency necessary for customers to*  
17 *have meaningful input and will provide an opportunity to test BPA's assumptions and*  
18 *data. However, outside of the SN CRAC rates process, BPA is open to considering a*  
19 *quarterly review of costs and financial status involving customers and other parties.*

20 *Q. The Joint Customers argue that of the \$500 million in savings not already achieved,*  
21 *\$300 million is related to costs other than the Settlement of Litigation over IOU*  
22 *Residential Benefits. Bliven, et al., SN-03-E-JC-01, at 14. The Joint Customers believe*  
23 *that these savings be incorporated over the remaining rate period. Please respond.*

24 *A. Through the contingent feature, BPA will include additional savings that have occurred*  
25 *or are forecasted with high certainty to occur prior to recalculating the thresholds and*  
26 *caps in August of 2003. Any savings realized after August 2003 will be reflected in the*

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1 ANR calculation for FY 2004 or FY 2005, and will show up in the SN CRAC adjustment  
2 for the next fiscal year (FY 2005 or FY 2006).

3 *Q. The Joint Customers contend that the investor owned utilities have already agreed to*  
4 *defer out of this rate period \$55 million in FY 2003 in financial benefits they receive and*  
5 *have expressed interest in offering to defer benefits in 2004, 2005, and 2006 at the same*  
6 *level. The Joint Customers argue that if the \$55 million for the FY 2004-2006 period*  
7 *were deferred there would not be a need for the SN-CRAC in 2004. Bliven, et al.,*  
8 *SN-03-E-JC-01, at 14. Do you agree?*

9 *A. BPA welcomes this interest in solving the financial problems this rate proceeding*  
10 *addresses, and eagerly anticipates the signed agreements. However, the current lack of*  
11 *finality of those agreements renders it inordinately risky for BPA to assume that savings*  
12 *from those agreements will materialize. In addition, the \$55 million deferral affects cash*  
13 *only, not net revenue. If the zero net revenue standard drives the SN CRAC calculation,*  
14 *this deferral would not have any effect on the SN CRAC adjustment unless a contingent*  
15 *approach is adopted to incorporate changes in cash or the deferral agreement ultimately*  
16 *in place affects net revenue. Setting aside the uncertainty of those savings, BPA cannot*  
17 *look at an erosion of PBL revenue on the order of \$900 million and seriously think that a*  
18 *\$55 million deferral of payments obviates the need for a 2004 SN CRAC.*

19 *Q. The Joint Customers believe that BPA should incorporate any final results of current*  
20 *negotiations regarding the structuring of the IOU residential benefits in the SN-CRAC*  
21 *process, assuming successful completion of such negotiations and approval by all*  
22 *parties. Bliven, et al., SN-03-E-JC-01, at 14-15. Please respond.*

23 *A. BPA agrees it should incorporate such agreements, but there is a time limit. Anything*  
24 *completed prior to preparation of the Final Study will be included through BPA's normal*  
25 *updating process. BPA has proposed its contingent feature to incorporate agreements and*  
26 *other cost-saving measures that are reached after the preparation of the Final Study. But*

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1 these must be finalized before August 2003 to affect the SN CRAC parameters.

2 *Q. The Joint Customers state that the litigation premium is collected through the LB CRAC*  
3 *and they recommend that the Agency make a final determination regarding the size of the*  
4 *LB CRAC that incorporates the results of the litigation negotiations. Bliven, et al.,*  
5 *SN-03-JC-01, at 15. How do you respond?*

6 *A. If a settlement occurs prior to the June LB CRAC 5 workshop, or if the IOUs do not send*  
7 *BPA notice to begin paying the litigation premium, BPA will not collect the litigation*  
8 *premium in the LB CRAC beginning October 1, 2003. The IOU litigation premium is*  
9 *not part of the SN CRAC rate case; no action is needed in this rate proceeding to ensure*  
10 *that the benefits of elimination of the litigation premium are passed on to customers as*  
11 *quickly as possible.*

12 *Q. In the Joint Customer's summary of findings, all three scenarios meet high standards of*  
13 *repayment probability in each year of the rate period and providing ending reserves well*  
14 *above \$100 million in each year of the rate period. The Joint Customers believe that*  
15 *BPA should use a variety of tools to avoid implementing an SN CRAC in 2004, and can*  
16 *consider FY 2005 and FY 2006 on a case-by-case basis. Bliven, et al., SN-03-E-JC-01,*  
17 *at 18. How do you respond?*

18 *A. BPA is not using cash tools to lower the SN CRAC rate. See Keep, et al.,*  
19 *SN-3-E-BPA-11. BPA is planning a 3-year solution. Id.*

20 *Q. The Joint Customers disagree with BPA's approach to not reflect savings in the*  
21 *SN CRAC until there is a high degree of certainty that it will be achieved. Bliven, et al.,*  
22 *SN-03-E-JC-01, at 19. How do you respond?*

23 *A. Including the savings before they are completed is not financially prudent. In the event*  
24 *these savings do not surface, the SN CRAC design adopted under the assumption of those*  
25 *savings might preclude making up for the unmaterialized savings; if not, rates that were*  
26 *set artificially low in the early years would have to adjust upward dramatically in later*

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1 years. BPA will incorporate savings through the contingent approach outlined in BPA's  
2 testimony. Any savings realized after August 2003, will be reflected in the ANR  
3 calculation for FY 2004 or FY 2005, and will show up in the SN CRAC adjustment for  
4 the next fiscal year (FY 2005 or FY 2006).

5 *Q. The Joint Customers contend that there is no limit on rate increases in the future because*  
6 *BPA has retained the right to "re-trigger" the SN CRAC in 2004 and 2005, which would*  
7 *lead to a higher rate increase in FY 2005 and FY 2006 than the cap in the Initial*  
8 *Proposal. The Joint Customers believe that such an adjustment cannot and will not*  
9 *maintain cost control either at the agency, or at those entities that depend on BPA*  
10 *funding and it will enable BPA to relax its cost reduction efforts. Bliven, et al.,*  
11 *SN-03-E-JC-01, at 19-20. Do you agree?*

12 *A.* No, retriggering the SN CRAC would result in another 7(i) process and parties would be  
13 able to exercise the right to challenge any proposed rate increase. There have never been  
14 "limits on rate increases" prior to the conducting of a BPA 7(i) process. It is the 7(i)  
15 process that is intended to rule out unreasonably high (or unreasonably low) rates. There  
16 is nothing new about that aspect of the potential retriggering of the SN CRAC, except  
17 that BPA in the past "triggered" rate cases every two years, and now retains the  
18 possibility of "retriggering" if it faces a high risk of deferral or default.

19 *Q. The Joint Customers contend that using Accumulated Net Revenue (ANR) will increase*  
20 *the burden on the region and that BPA staff did not determine what level of reserves*  
21 *correspond to the SN CRAC trigger points it proposes, but did not suggest how the*  
22 *calculation should be performed. Bliven, et al., SN-03-E-JC-01, at 22. Please respond.*

23 *A.* BPA disagrees that using ANR as the metric for calculating SN CRAC revenue collection  
24 amounts increases the burden on the region. While BPA did not calculate cash-  
25 equivalent values for the ANR-based SN CRAC thresholds, BPA's modeling accounted  
26 for the cash reserves in its calculation of TPP. There is some uncertainty in the forecasts

of how ANR and cash reserves will compare, but ANR is as likely to be higher with respect to forecasted reserves as lower, and therefore is not a biased metric.

*Q. The Joint Customers state that BPA reserves can be as high as \$328 million in FY 2004, \$462 million in FY 2005 and \$585 million in FY 2006 and still trigger the SN CRAC and that in the last 2 years of the rate case, BPA proposes triggering the SN CRAC with more than \$450 million in reserves. Bliven, et al., SN-03-E-JC-01, at 22. How do you respond?*

*A.* Before responding to the spirit of their assertion, BPA needs to correct the letter of their assertion. Their exhibit (SN-03-E-JC-01M.xls) contains an error that is very easy to make. They have examined the ToolKit results for BPA's Initial Proposal to derive SN CRAC cash thresholds that correspond to the ANR thresholds that BPA has used. The confusion arises because the thresholds for the SN CRAC for a fiscal year are the ending results for the previous year. For example, it is the ending results for 2004 that determine the SN CRAC rate adjustment for 2005. Their exhibit needs to be changed by shifting the entries in the columns labeled D and E up one row (since the SN CRAC for 2004, for example, is based on ending figures for 2003). Here is the corrected version:

SN CRAC ANR to Reserve Level Thresholds

All figures are end-of-year figures

\	A	B	C	D	E
Year	Avg Ending Reserves 1/	Avg Ending PBL ANR 2/	ANR If Reserves are Zero 3/	SN CRAC ANR Threshold for the next FY	Implicit SN CRAC Threshold in terms of Agency Reserves for the next FY 4/
2002	188	-637.8	-825.8		
2003	51.7	-837.4	-889.1	-400	489.1
2004	95	-632.6	-727.6	-140	587.6
2005	205.5	-396.9	-602.4	5	607.4
2006	347.8	-232.4	-580.2		

1/ From Row K in Toolkit run in Documentation, page 7-1.

2/ From Row L in Toolkit run in Documentation, page 7-1.

3/ B-A=C

4/ D-C=E

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1  
2 The table shows that BPA's reserves can be as high as \$489 million prior to FY 2004,  
3 \$588 million prior to FY 2005 and \$607 million prior to FY 2006 and still require an  
4 SN CRAC revenue collection according to BPA's proposed formula (prior to any  
5 updating in the Final Studies or recalculation in the contingent phase). That does not  
6 mean that a large SN CRAC would be assessed if reserves (technically, ANR) fell below  
7 that threshold – if ending 2004 ANR turned out to be equivalent to \$583 million, the  
8 SN CRAC revenue amount for collection in 2005 would be \$5 million, resulting in an  
9 increase of about 0.4 percent above May 2000 base rates, or about .08 mills.

10 *Q. Why is BPA proposing an SN CRAC that would collect SN CRAC revenues if BPA's*  
11 *reserves are as high as the numbers just presented?*

12 *A.* The simple answer is that if BPA lowered the thresholds, it would not meet the three  
13 standards BPA has propounded for this rate proceeding. (TPP, TRP, and Zero Net  
14 Revenues) For example, if BPA decreased the ANR threshold for the 2006 SN CRAC by  
15 \$100 million, from + 5 million to - \$95 million, the three-year TPP would decline from  
16 87.7 percent to 81.5 percent (still acceptable), and the 2006 TRP would decline from  
17 51.1 percent to 47.3 percent (not acceptable).

18 *Q. Aren't these thresholds very high?*

19 *A.* Given BPA's financial condition they are appropriate. One perspective on this comes  
20 from reexamining the May 2000 Proposal. In that rate proceeding, BPA used a ToolKit  
21 that employed cash thresholds for the CRAC, but translated those cash thresholds into  
22 ANR for use in the annual calculation of the CRAC revenue amount. The cash  
23 thresholds for the May 2000 CRAC (now named the FB CRAC) for ending 2003 through  
24 2005 (collection in 2004 through 2006) were \$300 million, \$500 million, and  
25 \$500 million – figures not that different from the cash figures we are talking about now.  
26 In addition, in the May 2000 Proposal, the cash thresholds were only PBL cash. In this

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1 SN CRAC rate proceeding, BPA has proposed using Agency cash. BPA's SN CRAC  
2 Initial Proposal assumes starting 2003 reserves of \$135 million for TBL, and that TBL's  
3 contribution to reserves is positive through the remainder of the rate period. Subtract that  
4 number from the Agency cash thresholds (ignoring the fact that TBL's \$135 million  
5 would be increasing over time as it accrues interest), and the corrected cash-equivalent  
6 thresholds translate into PBL cash-equivalent thresholds of \$354 million prior to  
7 FY 2004, \$453 million prior to FY 2005 and \$472 million prior to FY 2006. These  
8 figures are remarkably similar to the cash thresholds BPA defined in the May 2000  
9 Proposal (though on average lower).

10 *Q. What is driving the need for the level of the thresholds?*

11 A. BPA's reserves at the beginning of the 2004 to 2006 period are projected to be very low.  
12 BPA is requiring that the SN CRAC design achieve a 50 percent probability of making  
13 all three Treasury payments, 2004 through 2006. Since reserves at the start of 2004 are  
14 low, it is difficult to have a high probability of making the 2004 payment; that probability  
15 is 56.1 percent in BPA's Initial SN CRAC Proposal. In order to have the probability of  
16 making the 2004 payment, the 2005 payment and the 2006 payment be 50 percent or  
17 higher, the probability of making the 2005 payment must be quite high, as must be the  
18 probability for the 2006 payment.

19 *Q. Can you give an example that illustrates why lower thresholds would not be sufficient?*

20 A. Consider the financial risk BPA faces in 2005. Including the positive impact of a full  
21 FB CRAC, the expected value of PBL net revenue for 2005 is -\$117 million, and the  
22 accrual-to-cash adjustment is -\$110 million, meaning that the expected value of PBL cash  
23 flow in 2006 is -\$227 million. TBL provides a small offset with an expected cash flow of  
24 \$6 million. Suppose BPA's ending reserves turned out to be \$588 million, the  
25 approximate cash-equivalent of the SN CRAC threshold BPA is proposing. Subtract the  
26 expected value of Agency cash flow and the conditional expected value of ending

2005 reserves would be \$365 million. That is \$295 million above the minimum working capital level of \$70 million. Now consider the variability of BPA's cash flow.

According to the data in the ToolKit supporting BPA's Initial SN CRAC Proposal, out of 3,000 games, 509 have net revenues lower than -\$295 million. In other words, there is a  $509/3,000 = 17$  percent chance that BPA would miss part of the 2006 Treasury payment if it began 2006 with \$588 million and had only the LB CRAC and FB CRAC to rely on. That explains why BPA's proposal calls for at least minimal SN CRAC revenues if ANR is below the thresholds BPA proposes.

*Q. The Joint Customers object to BPA retaining the option of retriggering the SN CRACs if it feels that a 41 percent increase is not sufficient. Bliven, et al., SN-03-E-JC-01, at 22. Please respond.*

*A.* It is not the case that BPA is proposing to have, nor would BPA actually have, "the option of having further SN CRACs if it feels that a 41 percent increase is not sufficient." The wording of the comment is highly misleading. BPA is proposing to retain the triggering provisions that are in the current GRSPs, and these do not include BPA's "feelings." The SN CRAC would trigger if, in spite of the SN CRAC(s) that are (or have been) in place, BPA's financial condition deteriorates to the point that the triggering criterion has been met, whether or not the current or any prior SN CRAC rates have been 41 percent.

*Q. The Joint Customers believe that BPA's Initial Proposal understates the probability of repaying treasury. The Joint Customers argue that BPA's calculation of Treasury payment probability does not reflect that BPA proposes retaining the option to charge additional SN CRACs and thus, BPA can increase rates later to cope with adverse financial conditions, which is not reflected in BPA's TPP calculations. Bliven, et al., SN-03-E-JC-01, at 23. Do you agree?*

*A.* BPA is not underestimating TPP by not incorporating the impact of potential retriggering

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1 of the SN CRAC 7(i) process: the SN CRAC cannot provide meaningful protection  
2 against a first Treasury deferral. The SN CRAC would retrigger under one of two  
3 conditions: 1) BPA misses a payment to Treasury or another creditor; and 2) the  
4 Administrator determines that there is at least a 50 percent chance of missing a payment  
5 to Treasury or another creditor. In case 1), a deferral cannot be prevented because one  
6 has already happened. In case 2), the earliest time in a fiscal year that BPA could  
7 retrigger the SN CRAC is October. There is insufficient time in the remainder of that  
8 fiscal year to document the retriggering, run a 7(i) process, get new SN CRAC rates in  
9 place, and still generate enough cash (not revenue) to make a meaningful improvement in  
10 BPA's end-of-year cash position. The option to retrigger the SN CRAC does not actually  
11 improve TPP.

12 *Q. The Joint Customers state that a contingent approach might be somewhat better than*  
13 *BPA's proposal, because it might be somewhat more constrained than an open-ended*  
14 *automatic adjustment clause. The Joint Customers contend that a contingent approach*  
15 *does not remove the fundamental problem with automatic adjustment clauses that BPA*  
16 *and other entities know that BPA can simply increase rates if BPA fails to control costs;*  
17 *the incentive for BPA and other entities to control costs is sharply reduced. Bliven, et al.,*  
18 *SN-03-E-JC-01, at 27. Please respond.*

19 *A. BPA agrees with the Joint Customers that a contingent approach provides for additional*  
20 *opportunity to mitigate the size of future rate increases. BPA also believes it is important*  
21 *to maintain cost controls over areas that BPA has complete control. BPA will propose in*  
22 *the final proposal that cost caps be developed for BPA internal operating costs for the*  
23 *remainder of the rate period.*

24 *Q. SUB argues that the WP-02 rate case deferral logic in the Toolkit model had an error in*  
25 *it, because the difference between the WP-02 rate case TPP and the SN-03 rate case*  
26 *TPP, is much less than what was expected (10-20 percent as opposed to less than*

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2 percent). Nelson, SN-03-E-SP-01, at 14-15. Do you agree?

A. SUB is correct that the logic in the SN-03 version of the ToolKit for modeling “traditional deferral logic” contained an error. Since BPA used the alternative “new deferral logic,” this error had no effect on BPA’s Initial SN CRAC Proposal. BPA has corrected this error; versions 1.80 and later have the correct traditional deferral logic.

Q. In Toolkit, SUB argues that the FY2006 threshold should be reduced from \$5M to \$-285M by using the \$250M Treasury note in FY 2006, with any repayment in the following rate period, since BPA has removed the \$50 million floor in the ToolKit. Nelson, SN-03-E-SP-01, at 15. Do you agree?

A. BPA is not using cash tools to reduce rates; this specifically applies to planning to use the \$250 million note at the end of 2006 – BPA will not plan to do that. See Keep, et al., SN-03-E-BPA, at 11. BPA would like to clarify the effect that removing the floor in the ToolKit has. This is not a change in financial policy; BPA still requires working capital. This is a change in modeling only; removing the floor permits the ToolKit to calculate the TRP, which is the probability that by the end of 2006 BPA will have made its scheduled 2006 Treasury payment and also have made up any deferrals from 2003 through 2005. The ToolKit still considers any year in any game where the ending reserves would be below the working capital level to be a deferral, but in order to keep track of the amount deferred that must be repaid before the end of 2006, it allows the reserve level to go below the working capital level, or even below zero, in order to track the cumulative deferral total.

Q. The Northwest Requirements Utilities (NRU) argues that cost reductions and/or revenue improvements need a methodology for determining what is to be included in SN CRAC. One suggestion is to determine what is under BPA’s control. Do you agree?

A. BPA will not include uncertain savings because it is not financially prudent to do so. BPA will, through the contingent approach, incorporate savings in the August

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1 recalculation of the SN CRAC.

2 *Q. Joint Customers state that BPA's proposal would require many details to be worked out,*  
3 *such as changing FB CRAC GRSPs and Slice true-up calculations that are not part of*  
4 *this proceeding. Bliven, et al., SN-03-E-JC-01, at 21. Please respond.*

5 A. BPA agrees that the FB CRAC GRSPs need to be modified - the FB CRAC thresholds  
6 need to be the same as the thresholds for the SN CRAC. However, the Slice is not  
7 subject to either the FB or the SN CRAC and is not part of this proceeding.

8 *Q. The parties have made many suggestions and asked many questions about the contingent,*  
9 *variable approach that BPA is proposing. Please clarify how the variable feature will*  
10 *work.*

11 A. To start, BPA is proposing a variable SN CRAC. This means that the amount of  
12 SN CRAC revenue needed to be collected, if any, in each of the 3 years covered by this  
13 SN CRAC rate case varies according to a formula. The formula contains the  
14 "parameters" of the SN CRAC - the annual thresholds and annual caps on the SN CRAC  
15 revenue amount. In August prior to the beginning of each of the 3 years, BPA will  
16 calculate the ANR for PBL using approximately 9 months of accrual data and 3 months  
17 of forecasted data. This ANR feature will be put into the formula, which compares the  
18 ANR to the threshold applicable to the upcoming year. The SN CRAC revenue amount  
19 will be the smaller of the threshold less the ANR and the annual cap, but in no case will it  
20 be less than zero.

21 *Q. Please clarify how the contingent feature referred to above will work.*

22 A. Parties have expressed great interest in seeing that cost reductions or revenue increases  
23 that may be obtained after the preparation of the Final Study still be allowed to flow  
24 through to decrease the SN CRAC rate. BPA's contingent approach will accomplish this.  
25 At the time of the Final Study, BPA will update much of its data, and savings that have  
26 actually been achieved or can be forecasted with great certainty will be included. For

1 example, through the efforts of ENW, BPA was able to recover the value of millions of  
2 dollars of bearer bonds after preparation of the Initial Proposal. The value of this  
3 recovery will be reflected in the Final Study. Parties have also urged BPA to include  
4 savings from a negotiated settlement to the IOU litigation. BPA does not consider those  
5 savings certain enough to be included at this time. In order to permit them to be included  
6 if they are achieved after the Final Study but before the August calculation of the  
7 SN CRAC revenue amount for 2004, BPA will make a one-time recalculation of the  
8 parameters of the SN CRAC (the contingent feature) shortly before the calculation of the  
9 SN CRAC revenue amount for 2004 (the variable feature). In the contingent  
10 recalculation, SN CRAC parameters for all three years will be adjusted. After this one-  
11 time recalculation, the SN CRAC parameters will not be adjusted again unless the  
12 SN CRAC retriggers. However, the variable feature will adjust the SN CRAC revenue  
13 amounts for the actual circumstances in the year in which the calculation is made.

14 *Q. What kinds of changes will affect the contingent recalculation of SN CRAC parameters?*

15 *A.* In the contingent recalculation, BPA will change the parameters of the SN CRAC for  
16 decreases in the forecasted 2003-2006 budgets for ENW, the U.S. Army Corps of  
17 Engineers, the Bureau of Reclamation and Fish and Wildlife, for improvements in  
18 2003 PBL net revenue due to improved hydro supply and/or market prices, an IOU  
19 settlement, and for decreases in forecast of BPA's internal operating expenses that BPA  
20 adopts as part of the General Managers Process this Spring. *See Keep, et al.,*  
21 *SN-03-BPA-E-11* for definitions of internal operating costs. The caps on internal  
22 operating costs, once set in the Final Studies, will not be adjusted.

#### 23 **Section 4. IOU Settlement**

24 *Q. A number of parties have argued for incorporating a settlement of the IOU litigation into*  
25 *BPA's proposal. What would constitute an IOU settlement?*

26 *A.* An IOU settlement would comprise amendments to contractual agreements reached under

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1 a settlement of litigation regarding the existing subscription contracts with IOUs. The  
2 Existing Subscription Agreements include the Subscription Settlement Agreements, the  
3 Amended Settlement Agreement and the FY 2003 Deferral Agreements. If the  
4 Administrator determines in the Record of Decision for the settlement that the package of  
5 amendments to the Existing Settlement Agreements are a fundamental change in the  
6 contract obligations that trade benefits in one period for different benefits in another  
7 period and result in changes in the current rates charged to customers when the payments  
8 are reduced with a clear determination by BPA to collect the benefits in the rates  
9 developed for the fiscal year that the value is provided, then BPA will adjust the  
10 SN CRAC parameters for the IOU settlement.